



## 2009 SENATE BILL 572

February 26, 2010 - Introduced by Senator WIRCH, cosponsored by Representatives CULLEN, MOLEPSKE JR., TURNER and A. WILLIAMS. Referred to Committee on Small Business, Emergency Preparedness, Technical Colleges, and Consumer Protection.

1     **AN ACT** *to repeal* 628.347 (2) (b) 1., 628.347 (2) (b) 2., 628.347 (2) (b) 3., 628.347  
2           (2) (b) 4. and 628.347 (6) (b); *to renumber* 628.347 (7); *to renumber and*  
3           **amend** 628.347 (2) (a), 628.347 (2) (b) (intro.), 628.347 (2) (d) and 628.347 (4);  
4           **to amend** 628.347 (title), 628.347 (1) (a), 628.347 (1) (b), 628.347 (2) (title),  
5           628.347 (5) (intro.), 628.347 (6) (c) and 628.347 (8) (intro.); *to repeal and*  
6           **recreate** 628.347 (2) (c), 628.347 (3) and 628.347 (4) (title); and *to create*  
7           628.347 (1) (am), 628.347 (1) (d), 628.347 (1) (e), 628.347 (2) (a) 1., 628.347 (2)  
8           (a) 2., 628.347 (2) (a) 3., 628.347 (2) (a) 4., 628.347 (2) (bm), 628.347 (2) (dm),  
9           628.347 (3m), 628.347 (4) (b), 628.347 (4) (c), 628.347 (4m), 628.347 (5) (d) and  
10          628.347 (7) (b) of the statutes; **relating to:** suitability of annuity contracts and  
11          granting rule-making authority.

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### *Analysis by the Legislative Reference Bureau*

Under current law, an insurance intermediary (intermediary), or insurer if no intermediary is involved, may not recommend to a consumer the purchase of an annuity, or recommend to a consumer the exchange of an annuity that results in an insurance transaction, unless the intermediary or insurer has reasonable grounds

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to believe that the recommendation is suitable for the consumer based on facts disclosed by the consumer as to his or her investments, other insurance products, and financial situation and needs. Before making a recommendation, the intermediary or insurer must make reasonable efforts to obtain information from the consumer about his or her financial status, tax status, and investment objectives. Current law requires insurers to have a system for supervising annuity transaction recommendations and provides certain requirements with which the supervisory system must comply. The commissioner of insurance (commissioner) may order an insurer or intermediary to take corrective action if a consumer is harmed by a violation of the provisions regulating annuity transaction recommendations, and the commissioner may promulgate rules to reduce or eliminate penalties for violations of the provisions if, after a violation is discovered, corrective action is promptly taken for the consumer.

This bill makes various changes to the annuity transaction provisions. The bill adds types of information that an insurer or insurance intermediary must consider when determining whether a recommendation to a consumer for the purchase, exchange, or replacement of an annuity is suitable (suitability information), such as the consumer's risk tolerance, liquidity needs, intended use of the annuity, and financial time horizon. In addition, the bill requires that the consumer have been reasonably informed of various specified features of the annuity; that the consumer would benefit from certain features of the annuity, such as tax-deferred growth; that the annuity as a whole is suitable; and that, in the case of an exchange or replacement, the transaction as a whole is suitable for the particular consumer, including taking into account such things as whether the consumer will incur a surrender charge or be subject to increased fees. While the intermediary or insurer must still make reasonable efforts to obtain the consumer's suitability information before making a recommendation, an insurer is prohibited from issuing an annuity that is recommended unless it is reasonable to believe that the annuity is suitable, based on the consumer's suitability information. The bill requires an intermediary or insurer, at the time of a sale, to make a record of any recommendation that was made; to obtain the consumer's signature that he or she refused to provide suitability information, if that is the case; and to obtain a signed statement from the consumer that the consumer is entering into an annuity transaction that was not recommended by the insurer or intermediary, if that is the case. The bill prohibits an intermediary from dissuading, or attempting to dissuade, a consumer from truthfully responding to a request for confirmation of suitability information or from filing a complaint or from cooperating with the investigation of a complaint.

The bill expands on what is required for an insurer's system for supervising annuity transaction recommendations. Under the bill, an insurer must maintain reasonable procedures to inform intermediaries of the statutory requirements for annuity transactions, including incorporating the requirements into training manuals; establish standards for requiring intermediaries to comply with training requirements; provide intermediaries with product-specific training; maintain procedures for reviewing each recommendation before the issuance of an annuity to ensure that there is a reasonable basis to determine that a recommendation is

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suitable; and maintain reasonable procedures to detect recommendations that are not suitable.

The bill prohibits an intermediary from soliciting the sale of an annuity product unless the intermediary has adequate knowledge of the product to recommend it and establishes intermediary training requirements related to selling annuities. An intermediary who sells annuity products must complete a one-time training course that qualifies for at least four continuing education credits and that includes information on such topics as the types and classifications of annuities; how fixed, variable, and indexed annuity contract provisions affect consumers; taxation of annuities; appropriate sales practices; and disclosure requirements. Both the course and course provider, which must be registered as a continuing education provider in this state, must be approved by the commissioner. An insurer must verify that an intermediary has completed the course before allowing the intermediary to sell an annuity product for the insurer.

Under the bill, the commissioner retains the authority to promulgate rules to reduce or eliminate penalties for violations of the provisions if corrective action is promptly taken for the consumer. In addition, the commissioner may reduce or eliminate a penalty if the violation is not a part of a pattern or practice.

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*The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:*

1           **SECTION 1.** 628.347 (title) of the statutes is amended to read:

2           **628.347** (title) **Suitability of in annuity sales ~~to consumers~~**  
3 **transactions.**

4           **SECTION 2.** 628.347 (1) (a) of the statutes is amended to read:

5           628.347 (1) (a) “Annuity” means a fixed or variable annuity that is an insurance  
6 product that is individually solicited, whether the product is classified as an  
7 individual or group annuity.

8           **SECTION 3.** 628.347 (1) (am) of the statutes is created to read:

9           628.347 (1) (am) “FINRA” means the Financial Industry Regulatory Authority  
10 or a succeeding agency.

11           **SECTION 4.** 628.347 (1) (b) of the statutes is amended to read:

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1           628.347 (1) (b) “Recommendation” means advice provided by an insurance  
2 intermediary, or an insurer if no intermediary is involved, to an individual consumer  
3 that results in the purchase ~~or~~, exchange, or replacement of an annuity in accordance  
4 with that advice.

5           **SECTION 5.** 628.347 (1) (d) of the statutes is created to read:

6           628.347 (1) (d) “Replacement” means a transaction in which a new annuity is  
7 to be purchased and it is known, or should be known to the proposing insurance  
8 intermediary, or to the proposing insurer if no intermediary is involved, that by  
9 reason of the transaction an existing policy or contract has been or is to be any of the  
10 following:

11           1. Lapsed, forfeited, surrendered or partially surrendered, assigned to the  
12 replacing insurer, or otherwise terminated.

13           2. Converted to reduced paid-up insurance, continued as extended term  
14 insurance, or otherwise reduced in value by the use of nonforfeiture benefits or other  
15 policy values.

16           3. Amended so as to effect either a reduction in benefits or a reduction in the  
17 term for which coverage would otherwise remain in force or for which benefits would  
18 otherwise be paid.

19           4. Reissued with a reduction in cash value.

20           5. Used in a financed purchase.

21           **SECTION 6.** 628.347 (1) (e) of the statutes is created to read:

22           628.347 (1) (e) “Suitability information” means information that is reasonably  
23 appropriate to determine the suitability of a recommendation, including all of the  
24 following:

25           1. Age.

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- 1           2. Annual income.
- 2           3. Financial situation and needs, including the financial resources used for the
- 3 funding of the annuity.
- 4           4. Financial experience.
- 5           5. Financial objectives.
- 6           6. Intended use of the annuity.
- 7           7. Financial time horizon.
- 8           8. Existing assets, including investment and life insurance holdings.
- 9           9. Liquidity needs.
- 10          10. Liquid net worth.
- 11          11. Risk tolerance.
- 12          12. Tax status.

13           **SECTION 7.** 628.347 (2) (title) of the statutes is amended to read:

14           628.347 (2) (title) DUTIES OF INSURERS AND INSURANCE INTERMEDIARIES WITH  
15 REGARD TO RECOMMENDATIONS AND ISSUANCE OF ANNUITIES.

16           **SECTION 8.** 628.347 (2) (a) of the statutes is renumbered 628.347 (2) (a) (intro.)  
17 and amended to read:

18           628.347 (2) (a) (intro.) ~~Except as provided in par. (c), an insurance~~  
19 ~~intermediary, or insurer if no intermediary is involved, may not recommend~~ In  
20 recommending to a consumer the purchase of an annuity, or the exchange of an  
21 annuity if the recommendation that results in an insurance transaction or series of  
22 insurance transactions ~~unless the, an insurance~~ intermediary, or insurer has if no  
23 intermediary is involved, shall have reasonable grounds to believe that the  
24 recommendation is suitable for the consumer on the basis of facts disclosed by the  
25 consumer as to his or her investments, other insurance products, and financial

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1 situation and needs, including the consumer's suitability information, and that all  
2 of the following are true:

3 **SECTION 9.** 628.347 (2) (a) 1. of the statutes is created to read:

4 628.347 (2) (a) 1. The consumer has been reasonably informed of various  
5 features of the annuity, such as the potential surrender period and surrender charge,  
6 potential tax penalty if the consumer sells, exchanges, surrenders, or annuitizes the  
7 annuity, mortality and expense fees, investment advisory fees, potential charges for  
8 and features of riders, limitations on interest returns, insurance and investment  
9 components, and market risk.

10 **SECTION 10.** 628.347 (2) (a) 2. of the statutes is created to read:

11 628.347 (2) (a) 2. The consumer would benefit from certain features of the  
12 annuity, such as tax-deferred growth, annuitization, or death or living benefit.

13 **SECTION 11.** 628.347 (2) (a) 3. of the statutes is created to read:

14 628.347 (2) (a) 3. The particular annuity as a whole, the underlying  
15 subaccounts to which funds are allocated at the time of purchase or exchange of the  
16 annuity, and riders and similar product enhancements, if any, are suitable, and in  
17 the case of an exchange or replacement, the transaction as a whole is suitable, for the  
18 particular consumer based on his or her suitability information.

19 **SECTION 12.** 628.347 (2) (a) 4. of the statutes is created to read:

20 628.347 (2) (a) 4. In the case of an exchange or replacement of an annuity, the  
21 exchange or replacement is suitable, including taking into consideration all of the  
22 following:

23 a. Whether the consumer will incur a surrender charge, be subject to the  
24 commencement of a new surrender period, lose existing benefits, such as death,

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1 living, or other contractual benefits, or be subject to increased fees, investment  
2 advisory fees, or charges for riders and similar product enhancements.

3 b. Whether the consumer would benefit from product enhancements and  
4 improvements.

5 c. Whether the consumer has had another annuity exchange or replacement  
6 and, in particular, an exchange or replacement within the preceding 36 months.

7 **SECTION 13.** 628.347 (2) (b) (intro.) of the statutes is renumbered 628.347 (2)  
8 (b) and amended to read:

9 628.347 (2) (b) Before making a recommendation described in par. (a), an  
10 insurance intermediary, or insurer if no intermediary is involved, shall make  
11 reasonable efforts to obtain the consumer's suitability information ~~concerning all of~~  
12 ~~the following:~~.

13 **SECTION 14.** 628.347 (2) (b) 1. of the statutes is repealed.

14 **SECTION 15.** 628.347 (2) (b) 2. of the statutes is repealed.

15 **SECTION 16.** 628.347 (2) (b) 3. of the statutes is repealed.

16 **SECTION 17.** 628.347 (2) (b) 4. of the statutes is repealed.

17 **SECTION 18.** 628.347 (2) (bm) of the statutes is created to read:

18 628.347 (2) (bm) Except as permitted under par. (c), an insurer may not issue  
19 an annuity that is recommended by the insurer or its insurance intermediary to a  
20 consumer unless it is reasonable to believe that the annuity is suitable based on the  
21 consumer's suitability information.

22 **SECTION 19.** 628.347 (2) (c) of the statutes is repealed and recreated to read:

23 628.347 (2) (c) 1. Subject to subd. 2., neither an insurance intermediary nor an  
24 insurer has any obligation to a consumer under par. (a) or (bm) related to any annuity  
25 transaction if any of the following applies:

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1           a. Neither the insurance intermediary nor the insurer made a  
2 recommendation.

3           b. The insurance intermediary or insurer made a recommendation but the  
4 recommendation was later found to have been prepared based on inaccurate  
5 material information provided by the consumer.

6           c. The consumer refuses to provide relevant suitability information and the  
7 annuity transaction is not recommended.

8           d. The consumer decides to enter into an annuity transaction that is not based  
9 on a recommendation of the insurer or the insurance intermediary.

10           **SECTION 20.** 628.347 (2) (d) of the statutes is renumbered 628.347 (2) (c) 2. and  
11 amended to read:

12           628.347 (2) (c) 2. ~~Any recommendation of an insurer or insurance intermediary~~  
13 ~~that, under par. (c), is not subject to the obligation under par. (a)~~ An insurer's  
14 issuance of an annuity under circumstances specified in subd. 1. a. to d. shall be  
15 reasonable under all circumstances actually known to the insurer ~~or insurance~~  
16 ~~intermediary at the time the recommendation is made~~ annuity is issued.

17           **SECTION 21.** 628.347 (2) (dm) of the statutes is created to read:

18           628.347 (2) (dm) An insurance intermediary, or insurer if no intermediary is  
19 involved, shall at the time of sale do all of the following:

20           1. Make a record of any recommendation subject to par. (a).

21           2. Obtain a customer–signed statement documenting a customer's refusal, if  
22 any, to provide suitability information.

23           3. If a customer decides to enter into an annuity transaction that is not based  
24 on the insurance intermediary's or insurer's recommendation, obtain a

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1 customer-signed statement acknowledging that the annuity transaction is not  
2 recommended by the intermediary or insurer.

3 **SECTION 22.** 628.347 (3) of the statutes is repealed and recreated to read:

4 628.347 (3) INSURER'S SUPERVISORY RESPONSIBILITY. (a) An insurer shall  
5 establish a supervision system that is reasonably designed to achieve the insurer's  
6 and its insurance intermediaries' compliance with this section. Under the system,  
7 the insurer shall do at least all of the following:

8 1. Maintain reasonable procedures to inform its insurance intermediaries of  
9 the requirements of this section and incorporate the requirements of this section into  
10 relevant insurance intermediary training manuals.

11 2. Establish standards for insurance intermediary product training and  
12 maintain reasonable procedures to require its insurance intermediaries to comply  
13 with the requirements of sub. (4m).

14 3. Provide product-specific training and training materials that explain all  
15 material features of its annuity products to its insurance intermediaries.

16 4. Maintain procedures for review of each recommendation before issuance of  
17 an annuity that are designed to ensure that there is a reasonable basis to determine  
18 that a recommendation is suitable. An insurer's procedures may apply a screening  
19 system for the purpose of identifying selected transactions for additional review. An  
20 insurer's procedures may be accomplished electronically or through other means,  
21 including physical review. An electronic or other system may be designed to require  
22 additional review only of those transactions identified for additional review by the  
23 selection criteria.

24 5. Maintain reasonable procedures to detect recommendations that are not  
25 suitable, which may include confirmation of consumer suitability information,

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1 systematic customer surveys, interviews, confirmation letters, and programs of  
2 internal monitoring. Nothing in this subdivision prevents an insurer from  
3 complying with this subdivision by applying sampling procedures or by confirming  
4 suitability information after issuance or delivery of the annuity, or both.

5 6. Annually provide a report to senior management, including to the senior  
6 manager responsible for audit functions, that details a review, with appropriate  
7 testing, that is reasonably designed to determine the effectiveness of the supervision  
8 system, the exceptions found, and corrective action taken or recommended, if any.

9 (b) 1. Nothing in this subsection restricts an insurer from contracting for the  
10 performance of a function required par. (a), including maintenance of procedures.  
11 An insurer is responsible for taking appropriate corrective action and may be subject  
12 to, sanctions and penalties under subs. (5) and (6), regardless of whether the insurer  
13 contracts for the performance of a function and regardless of the insurer's compliance  
14 with subd. 2.

15 2. An insurer's supervision system under par. (a) shall include supervision of  
16 any contractual performance under this subsection, including all of the following:

17 a. Monitoring and, as appropriate, conducting audits to ensure that the  
18 contracted function is properly performed.

19 b. Annually obtaining a certification from a senior manager who has  
20 responsibility for the contracted function that the manager has a reasonable basis  
21 to represent, and does represent, that the function is properly performed.

22 (c) An insurer is not required to include in its system of supervision an  
23 insurance intermediary's recommendations to consumers of products other than the  
24 annuities offered by the insurer.

25 **SECTION 23.** 628.347 (3m) of the statutes is created to read:

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1           628.347 (3m) PROHIBITED ACTS OF INTERMEDIARY. An insurance intermediary  
2           may not dissuade, or attempt to dissuade, a consumer from doing any of the  
3           following:

4           (a) Truthfully responding to an insurer's request for confirmation of suitability  
5           information.

6           (b) Filing a complaint.

7           (c) Cooperating with the investigation of a complaint.

8           **SECTION 24.** 628.347 (4) (title) of the statutes is repealed and recreated to read:

9           628.347 (4) (title) FINANCIAL INDUSTRY REGULATORY AUTHORITY RULES.

10          **SECTION 25.** 628.347 (4) of the statutes is renumbered 628.347 (4) (a) and  
11          amended to read:

12          628.347 (4) (a) Compliance ~~Subject to pars. (b) and (c), sales made in~~  
13          compliance ~~with the National Association of Securities Dealers Conduct Rules~~  
14          FINRA requirements ~~pertaining to suitability satisfies and supervision of annuity~~  
15          transactions satisfy ~~the requirements under sub. (2) for the recommendation of~~  
16          ~~variable annuities~~ this section. Nothing in this subsection, however, limits the  
17          commissioner's ability to enforce this section, including conducting any  
18          investigation necessary for that enforcement.

19          **SECTION 26.** 628.347 (4) (b) of the statutes is created to read:

20          628.347 (4) (b) For par. (a) to apply, an insurer must do all of the following:

21           1. Monitor the FINRA member broker-dealer using information collected in  
22           the normal course of an insurer's business.

23           2. Provide to the FINRA member broker-dealer information and reports that  
24           are reasonably appropriate to assist the FINRA member broker-dealer to maintain  
25           its supervision system.

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1           **SECTION 27.** 628.347 (4) (c) of the statutes is created to read:

2           628.347 (4) (c) This subsection applies to FINRA broker-dealer sales of  
3 variable annuities and fixed annuities if the suitability and supervision are similar  
4 to those applied to variable annuity sales.

5           **SECTION 28.** 628.347 (4m) of the statutes is created to read:

6           628.347 (4m) INSURANCE INTERMEDIARY TRAINING. (a) An insurance  
7 intermediary may not solicit the sale of an annuity product unless the insurance  
8 intermediary has adequate knowledge of the product to recommend the annuity and  
9 the insurance intermediary is in compliance with the insurer's standards for product  
10 training. An insurance intermediary may rely on insurer-provided product-specific  
11 training standards and materials to comply with this paragraph.

12           (b) 1. a. An insurance intermediary who engages in the sale of annuity products  
13 shall complete a one-time training course approved by the commissioner and  
14 provided by an education provider approved by the commissioner.

15           b. Insurance intermediaries who hold a life insurance line of authority on the  
16 effective date of this subd. 1. b. .... [LRB inserts date], and who desire to sell annuities  
17 must complete the requirements of this paragraph within 6 months after the  
18 effective date of this subd. 1. b. .... [LRB inserts date]. Individuals who obtain a life  
19 insurance line of authority on or after the effective date of this subd. 1. b. .... [LRB  
20 inserts date], may not engage in the sale of annuities until they have completed the  
21 annuity training course required under this paragraph.

22           2. The minimum length of the training required under this paragraph shall be  
23 sufficient to qualify for at least 4 continuing education credits, but may be longer.

24           3. The training required under this paragraph shall include information on all  
25 of the following topics:

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- 1           a. The types of annuities and various classifications of annuities.
- 2           b. Identification of the parties to an annuity.
- 3           c. How fixed, variable, and indexed annuity contract provisions affect  
4 consumers.
- 5           d. The application of income taxation of qualified and non-qualified annuities.
- 6           e. The primary uses of annuities.
- 7           f. Appropriate sales practices and replacement and disclosure requirements.
- 8           4. Providers of annuity training courses intended to comply with this  
9 paragraph shall cover all of the topics listed under subd. 3. and may not present any  
10 marketing information or provide training on sales techniques or provide specific  
11 information about a particular insurer's products. Additional topics may be offered  
12 in conjunction with and in addition to those listed under subd. 3.
- 13           5. A provider of an annuity training course intended to comply with this  
14 paragraph shall register as a continuing education provider in this state and comply  
15 with the rules and guidelines applicable to insurance intermediary continuing  
16 education courses as set forth in rules of the office governing intermediary  
17 continuing education requirements.
- 18           6. Annuity training courses may be conducted and completed by classroom or  
19 self-study methods in accordance with rules of the office governing intermediary  
20 continuing education requirements.
- 21           7. Providers of annuity training shall comply with the reporting requirements  
22 and shall issue certificates of completion in accordance with rules of the office  
23 governing intermediary continuing education requirements.

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1           8. Satisfaction of the training requirements of another state that are  
2 substantially similar to the requirements of this paragraph satisfies the training  
3 requirements of this paragraph in this state.

4           9. An insurer shall verify that an insurance intermediary has completed the  
5 annuity training course required under this paragraph before allowing the  
6 intermediary to sell an annuity product for that insurer. An insurer may satisfy its  
7 responsibility under this subdivision by obtaining certificates of completion of the  
8 training course or obtaining reports provided by commissioner-sponsored database  
9 systems or vendors or from a reasonably reliable commercial database vendor that  
10 has a reporting arrangement with approved insurance education providers.

11           **SECTION 29.** 628.347 (5) (intro.) of the statutes is amended to read:

12           628.347 (5) ~~REMEDIAL COMPLIANCE; REMEDIAL MEASURES.~~ (intro.) The An insurer  
13 is responsible for compliance with this section. If a violation occurs, either because  
14 of the action or inaction of the insurer or its insurance intermediary, the  
15 commissioner may do any of the following:

16           **SECTION 30.** 628.347 (5) (d) of the statutes is created to read:

17           628.347 (5) (d) Impose any appropriate penalties or sanctions.

18           **SECTION 31.** 628.347 (6) (b) of the statutes is repealed.

19           **SECTION 32.** 628.347 (6) (c) of the statutes is amended to read:

20           628.347 (6) (c) The commissioner may ~~promulgate rules related to~~ by rule  
21 provide for the reduction or elimination of penalties for violations a penalty under  
22 par. (a) for a violation of this section on the basis of prompt if corrective action is taken  
23 to correct any harm caused to consumers by the violations for the consumer promptly  
24 after the violation is discovered or the violation is not part of a pattern or practice.

25           **SECTION 33.** 628.347 (7) of the statutes is renumbered 628.347 (7) (a).

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1           **SECTION 34.** 628.347 (7) (b) of the statutes is created to read:

2           628.347 (7) (b) Records that are required to be maintained under this section  
3           may be maintained in paper, photographic, microprocess, magnetic, or electronic  
4           media or by any process that accurately reproduces the actual document.

5           **SECTION 35.** 628.347 (8) (intro.) of the statutes is amended to read:

6           628.347 (8) **EXEMPTIONS.** (intro.) ~~This~~ Unless otherwise prescribed by rule, this  
7           section does not apply to any of the following:

8           **SECTION 36. Effective dates.** This act takes effect on the first day of the 12th  
9           month beginning after publication, except as follows:

10           (1) **RULE REDUCING OR ELIMINATING PENALTY.** The treatment of section 628.347  
11           (6) (b) and (c) of the statutes takes effect on the day after publication.

12

(END)